

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

TRANSFERRING BOUND PRINTED MATTER  
PARCELS TO THE COMPETITIVE PRODUCT  
LIST

Docket No. MC2021-78

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1 – 6  
AND 8 – 9 TO CHAIRMAN'S INFORMATION REQUEST NO. 3  
(April 23, 2021)

The United States Postal Service hereby provides its responses to Questions 1 - 6 and 8 – 9 of Chairman's Information Request No. 3, issued on April 16, 2021. Each question is stated verbatim and is followed by its response. The Postal Service is in the process of determining whether data and studies responsive to Question 7 exist. The Postal Service will file that answer with an appropriate motion.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 23, 2021

**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 3, Qs 1-6 and 8-9**

1. Please provide any available data or analyses regarding the volume and revenue shares of BPM Parcels and the competing products identified in the Request, including underlying calculations and source documents.

**Response:**

		Volume (in millions)					Revenue (in millions)				
USPS		BPM Parcels	UPS Ground	FedEx Ground	Total	BPM Share	BPM Parcels	UPS Ground	FedEx Ground	Total	BPM Share
FY20Q1	Oct-Dec	66	1,153	585	1,803	3.6%	73	9,403	5,182	14,658	0.5%
FY20Q2	Jan-Mar	64	939	586	1,589	4.0%	73	8,204	5,282	13,559	0.5%
FY20Q3	Apr-Jun	67	1,124	571	1,762	3.8%	72	9,792	5,275	15,139	0.5%
FY20Q4	Jul-Sep	64	1,092	578	1,734	3.7%	71	9,749	5,224	15,044	0.5%
		261	4,307	2,321	6,889	3.8%	289	37,148	20,963	58,399	0.5%

Data for UPS Ground and FedEx Ground is taken from companies' investor information (<http://investors.fedex.com/home/default.aspx> at FY21 Q3 statbook;

<http://www.investors.ups.com/financials/quarterly-earnings> at Historical Financials).

Data for UPS Mail Innovations and UPS SurePost are included in UPS figures. Data for FedEx Smart Post are included in FedEx figures. BPM Parcels figures include volume data for competitors that use BPM Parcels. Revenue data for DHL SmartMail and OSM Worldwide are unavailable.

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2. Please refer to page 4 of the Request where it states, "BPM Parcels typically carry books, other non-advertising publications, and larger catalogs." Please provide any available data or analyses showing disaggregated revenue, pieces, and weight data for the listed categories or any other categories.

**Response:**

There are no such data or analyses.

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3. Please refer to pages 6-7 of the Request where it states, "BPM Parcels competes primarily against products offered by United Parcel Service (UPS) and FedEx Corporation (FedEx). Both companies offer a service called 'Ground.' Neither product has a content restriction. Both charge by the pound and by zone for ground deliveries of packages large and small (up to 150 pounds). Delivery within the continental United States is guaranteed within five days." Please refer further to page 4 of the Request where it states, "Transportation of BPM Parcels is by ground, with a service standard of 2-9 days, though the Postal Service does not guarantee delivery within this time." Please provide the distribution of service standards across the 2-9 day range for BPM Parcels.

**Response:**

The Postal Service does not have separate service standards for BPM Parcels. Its service standards are the same as the service standards for parcels generally. Parcel delivery times depend upon the originating and destinating Zip codes and the distance between. Delivery standards for all Zip code pairs are publicly available here: <https://postalpro.usps.com/ppro-tools/service-standards-maps>.

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4. Please refer to page 10 of the Request where it states, "There are, conceivably, circumstances in which the Postal Service might exercise monopoly power over BPM Parcels. Assuming, for the sake of argument, that the Postal Service were the only competitor logistically capable of providing last-mile delivery, other competitors seeking to deliver BPM Parcels would be compelled to route their packages through the Postal Service, paying accordingly. In such a case, the Postal Service could, with impunity, raise prices significantly above cost and degrade service delivery times, all without losing business. Competitors and customers would have no alternatives." Please confirm that if the prices offered by USPS competitors that have their own last-mile delivery networks are substantially higher than USPS BPM Parcel prices for packages with similar characteristics, then USPS would have substantial power over the BPM Parcels market. If not confirmed without qualification, please explain your response fully.

**Response:**

Not confirmed. In fact, the opposite is the case. If BPM Parcels is substantially underpriced with respect to competitor products, then fundamentally it would have neither substantial market power nor monopoly power. The Supreme Court has defined the former as "the ability to raise prices above those that would be charged in a competitive market," *NCAA v. Bd. Of Regents of the Univ. of Oklahoma*, 468 U.S. 85, 109 n. 38 (1984), and the latter as "the power to control prices or exclude competition." *U.S. v. E. I. du Pont de Nemours & Co.*, 351 U.S.377, 391 (1952).

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5. Please refer to the Postal Service's FY 2020 Public Cost and Revenue Analysis.<sup>1</sup>
- a. Please confirm that the FY 2020 systemwide cost coverage across all Market Dominant products was 155.9% (\$72,341.6 million / \$46,414.4 million). If not confirmed, please provide the correct figure and all underlying calculations.
  - b. Please confirm that if the BPM Parcel product had the systemwide cost coverage, its FY 2020 average revenue per piece would have been \$1.841. If not confirmed, please provide the correct figure, all underlying calculations, and explain fully.
  - c. Please confirm that this hypothetical BPM Parcel average revenue per piece (at systemwide cost coverage) figure is significantly lower than UPS and FedEx Ground published prices. If not confirmed, please explain fully.

**Response:**

As to Question 5a, not confirmed. The question uses cost coverages across all products and services, both Market Dominant and competitive. The correct calculation is \$41,730.8 million / \$26,922.1 million = 155.01%.

As to Question 5b, not confirmed. The cost coverage for any particular product is a ratio of revenue to attributable cost, and a change in cost coverage could be the result of a change in revenue, a change in attributable cost, or a change in both. As such, even if BPM Parcels had the systemwide cost coverage, that would not mean its average per-piece revenue is the figure given.

As to Question 5c, not confirmed. The question posits an apples and oranges comparison. As the Postal Service stated in its original transfer request, approximately

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<sup>1</sup> Docket No. ACR2020, Library Reference USPS-FY20-1, December 29, 2020.

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two-thirds of BPM Parcels are dropshipped at the destination delivery unit (DDU). USPS Request for Transfer at p. 9 and Table 1. In other words, BPM Parcels is predominantly a last-mile delivery product. UPS Ground and FedEx Ground are not.

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6. Please refer to page 12 of the Request where it states: "UPS, for example, retains some volume for its own last-mile network where it has sufficient delivery density. This practice is made explicit in UPS's most recent contract with the Teamsters union. The contract requires UPS to identify when SurePost packages are destined to multiple addresses in close proximity to one another and retain those packages for delivery rather than delivering them through the Postal Service."
- a. Please confirm that this contract provision requiring UPS select some SurePost packages to be delivered by UPS drivers includes no language regarding USPS package delivery prices. If not confirmed without qualification, please explain fully.
  - b. What percentage of UPS SurePost packages that would qualify as BPM Parcel packages, if delivered by the Postal Service, are instead delivered by UPS drivers? Please provide all underlying calculations.
  - c. What percentage of UPS SurePost packages that would qualify as BPM Parcel packages, if delivered by the Postal Service, destinate in sufficiently close proximity to other UPS package deliveries that they are required to be delivered by UPS drivers? Please provide all underlying calculations.

**Response:**

As to Question 6a, the Postal Service believes it quoted the contract language correctly. There is no mention of USPS package delivery prices in Article 26, section 4, of the contract.

As to Question 6b and Question 6c, the Postal Service does not have this information.



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8. Please provide all USPS documents, studies, and analyses regarding the near-term and longer-term pricing of packages currently shipped as BPM Parcels if the PRC approves the proposed BPM Parcel transfer and the financial impact of the BPM Parcel transfer and resulting higher prices on Postal Service finances.

**Response:**

Please see Attachment A. Redacted information is filed under seal with a request for non-public treatment.

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9. Please provide all USPS documents related to and studies and analyses of whether the BPM Parcel product meets the statutory definition of a Market-Dominant product.

**Response:**

There are no such studies or analyses.

Attachment A to MC2021-78 Response to Chairman's Information Request No. 3, Question 8

Analysis of Impact of Range of Price Increases Conducted in Preparation for Governors vote on 8-8-2019

Bound Printed Matter Parcels Analysis					
	Price Changes				
Before Rates	0%				
Base: CPI (Market Dominant)	1.9%				
Scenario 1	1%				
Scenario 2	2%				
Scenario 3	3%				
Scenario 4	4%				
Scenario 5	5%				
Scenario 6	10%				
Scenario 7	15%				
Scenario 8	25%				
Scenario 9	50%				
Scenario 10	100%				
Scenario 11	200%				

Key Assumptions	
	Model Inputs
Elasticity	-0.821
Cost per piece	1.04
Cost saving capture	75%
CPI	1.9%

	FY2019Q3 equation	FY2020Q1 equation	
	(1.103)	(0.821)	
CRA 2019, attributable cost			
	100%	75%	50%

<b>Notes:</b>
Price Impacts are calculated for full year FY2021Q2-FY2022Q1
BPM Parcels have a price elasticity of -0.821 in FY2020Q1 equations, meaning that a 1.0% price increase will result in about a 0.8% volume decrease; BPM Parcels have a price elasticity of -1.103 in FY2019Q3 equations, meaning that a 1.0% price increase will result in about a 1.1% volume decrease. Neither of the two elasticities is statistically different from -1.
The model (elasticity) assumes small price changes, therefore model forecasts are less likely to hold for significant price increases (above 15%, etc.).